



LEGAL SERVICES CORPORATION

Issuance of Updated Financial Guide for Grantees

AGENCY: Legal Services Corporation.

ACTION: Notice of issuance of final financial guide.

SUMMARY: The Legal Services Corporation (LSC) updated its Financial Guide (“Guide”) for grantees.

DATES: The guide will become effective January 1, 2023.

FOR FURTHER INFORMATION CONTACT: Stuart Axenfeld, Deputy Director for Fiscal Compliance, Legal Services Corporation, 3333 K St. NW, Washington, DC 20007; (202) 295-1539; axenfelds@lsc.gov.

SUPPLEMENTARY INFORMATION: In 2018, LSC conducted a comprehensive review of the Accounting Guide for LSC Recipients, 2010 Edition. Based on input from LSC grantees and LSC’s fiscal compliance analysts, LSC determined the format of the Accounting Guide no longer best serves grantees or LSC. The new Financial Guide removes outdated or inapplicable materials, improves guidance directly related to LSC-specific issues, and adds clarity about both required and recommended financial practices. The new Financial Guide also addresses areas that were previously identified as problematic or complex, such as cost allocation, and assists grantees in the financial management of LSC grants. LSC removed sections that provided general accounting and financial guidance because neither LSC nor grantees found these sections useful.

Overall, the new Financial Guide reflects existing LSC and grantee practices and requirements. Additionally, in some places, the new Financial Guide sets out requirements that previously had not been published for comment. These are requirements that LSC has been applying through required corrective actions and most, perhaps all, grantees have already implemented.

LSC originally sought comment on the comprehensive revisions to the Financial Guide via a notice published in the *Federal Register* on July 7, 2020. 85 FR 40688. LSC received 38 unique comments on the draft Financial Guide from five grantees and the National Legal Aid and Defender Association (NLADA) on behalf of itself and its LSC grantee members. Generally, the commenters suggested clarifications and requested that LSC make many of the proposed requirements into recommendations to accommodate the diversity of grantee sizes, fiscal sophistication, and resources.

On December 15, 2021, LSC sought additional comments on discrete changes to the Financial Guide. 86 FR 71288, Dec. 15, 2021. LSC later extended the comment period to February 15, 2022. 87 FR 2638, Jan. 18, 2022. LSC received six unique comments from one grantee, NLADA, and Management Information Exchange.

LSC will publish the Financial Guide on LSC's website at <https://www.lsc.gov/lsc-financial-guide>. The Financial Guide will become effective on January 1, 2023. LSC will announce training opportunities at a later date.

LSC's RESPONSE TO COMMENTS

LSC considered all comments and made the changes described below in response. The Financial Guide adds clear definitions that “must” and “shall” state requirements, but “should” states a strong recommendation. For all required items, grantees may opt to use different methods of reaching the goal, subject to LSC's determination that the alternatives are sufficient.

Revised sections include:

Section 1.3—Recipient Responsibility

This new section contains general statements moved from other sections that grantees must keep their financial policies and procedures up to date with accounting standards and changes to LSC requirements (such as regulations, the Audit Guide, etc.).

This section also reinforces the requirement for grantee Board approval of grantee written policies, which many recipient organizations already practice. Additionally, LSC revised the Financial Guide to clarify that both grantee policies and procedures should be written.

Section 2.2.2 -Time and Attendance (Payroll)

LSC revised the language related to the timing of payroll or the execution of payroll to focus on the review of time and attendance records to ensure they are authorized, complete, and accurate. Also, LSC clarified that grantees may develop an alternative report to maintain the components of a labor cost distribution report.

Section 2.5.3 -Electronic Data Processing and Cybersecurity

LSC considered the increasing level of electronic threats and the significant risk those threats pose to the financial security of grantees. LSC is requiring grantees to gauge the risk to their organizations. Risk assessment procedures will vary by grantee.

However, at a minimum, the process should:

- identify the physical and digital assets susceptible to cyberattacks;
- identify risks to those assets (risks should be evaluated annually for changes);
- evaluate the risks (e.g., high, medium, or low) based on likelihood and impact; and
- document the results of the risk assessment, including the development and implementation of appropriate controls.

Section 3.5 -Procurement and Contracting

LSC added suggestions on how recipients should customize their policy requirements based on levels of risks.

AUTHORITY: 42 USC 2996(g)(e).

Dated: May 31, 2022.

Stefanie Davis,

Senior Associate General Counsel.

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